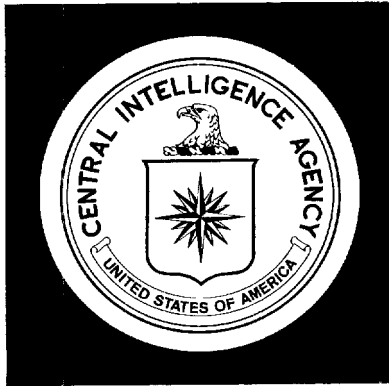


Secret



Weekly Summary

Secret

17 August 1973
No. 0383/73

State Dept. review completed

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CONTENTS (17 August 1973)

The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

WARNING

The WEEKLY SUMMARY contains classified information affecting the national security of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law. 25X1

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary,

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Awaiting the Moment of Truth

| As the week neared its end, Phnom Penh was nervously bracing itself for the anticipated insurgent offensive that will test the ability of the shaky Cambodian Army to fight on without the crutch of US air power. Heavy casualties inflicted by air strikes and continuing supply difficulties delayed this timetable.

| Cambodian Army units have been using the battlefield lull to strengthen their defenses around the capital. Government troops have moved to close several gaps in the outlying defenses, and patrolling has been increased. An 11th-hour supply effort has left Phnom Penh's stocks in good shape. Ammunition is adequate, and there is

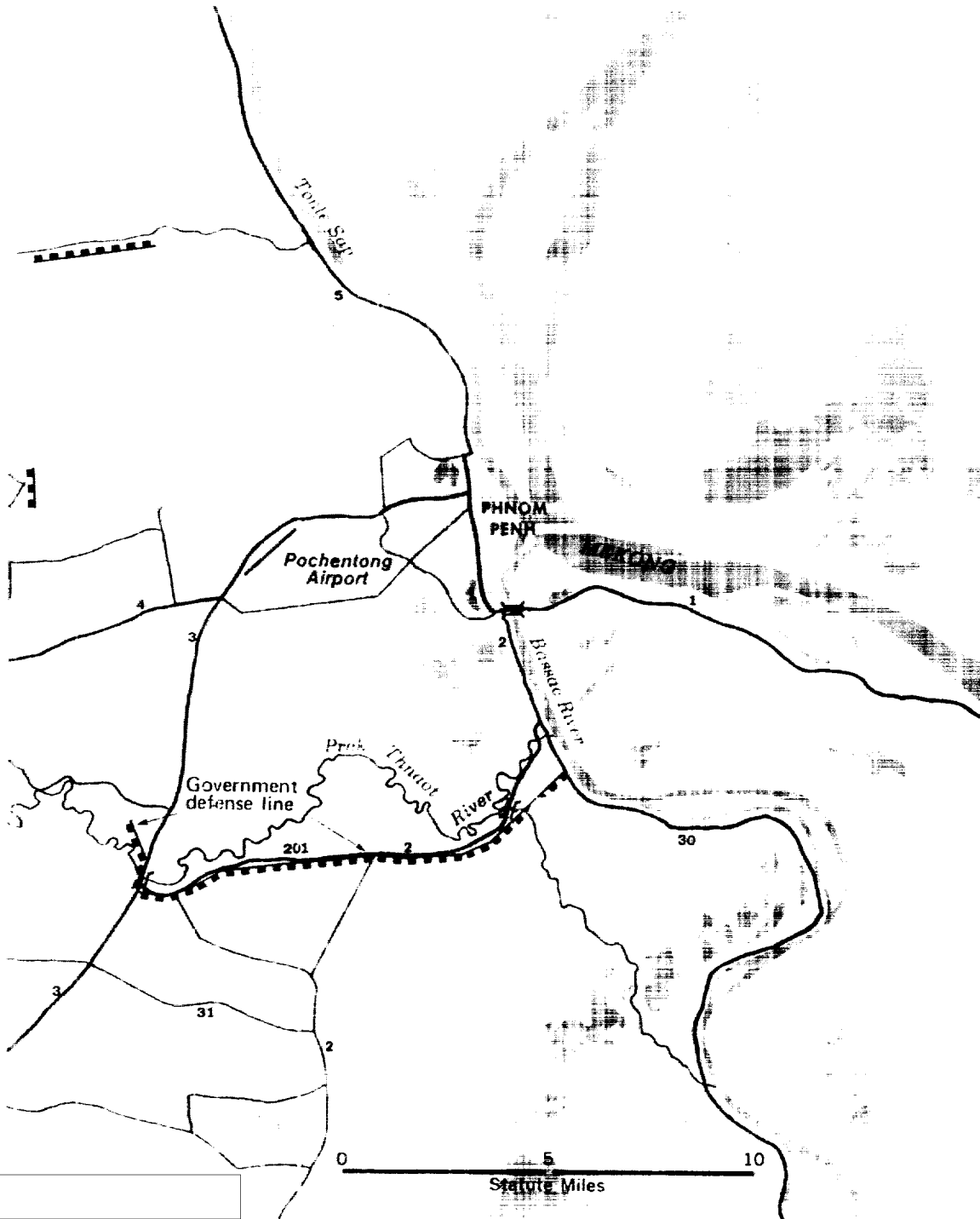
enough rice and petroleum to last until late September or early October.

| Although the army has a decided edge over the Communists in terms of troop strength and firepower, the defense of Phnom Penh will depend in large part on the psychological impact the bombing halt has on army units already suffering from serious morale problems. Government and military leaders in Phnom Penh, buoyed by the recent slackening of insurgent activity and minor territorial gains by the army, are expressing confidence that government forces can hold their own. If, however, a defeatist mood were to develop in the ranks, even moderate Communist

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Phnom Penh



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pressure could cause army resistance to crumble quickly?

1 The need to close ranks against the insurgent threat is not being heeded by the politicians in Phnom Penh. Sniping between members of the High Political Council continues unabated, and unrest is obvious at lower political levels?

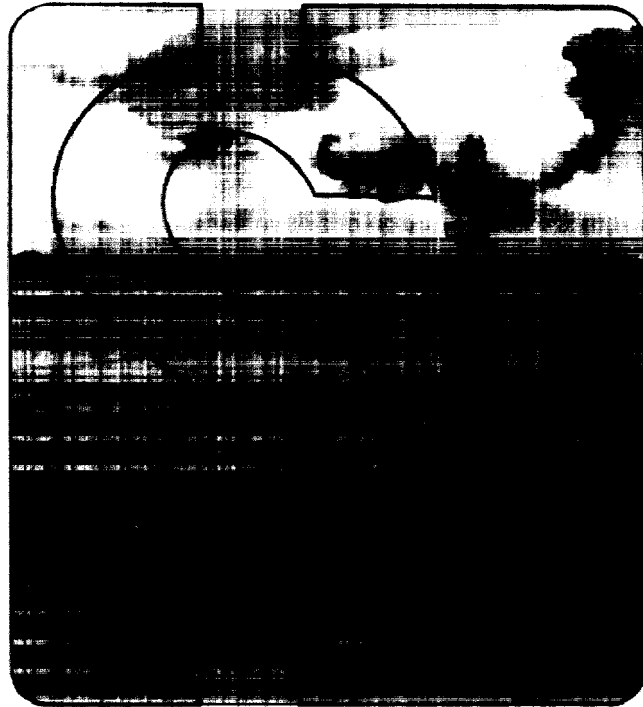
3 Meanwhile, Sihanouk and his government-in-exile have hailed the bombing halt as a "great victory," which will strengthen the insurgents' resolve to "liberate" Phnom Penh. Sihanouk's position on negotiations is as uncompromising as ever and the Prince's numerous press statements and interviews have been replete with expressions of confidence that "total military victory" is near for the insurgents.

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OIL**SECRET**

SECRET**LIBYA: OCCIDENTAL SUCCUMBS**

9 [On 11 August, Tripoli took over 51 percent of the assets Occidental Petroleum had in the country. Faced with the inevitable, Occidental acquiesced and will receive compensation based on net book value—a low valuation method. The company also agreed to market Libya's share of the production from the affected fields and will pay 50 percent more for such oil than before. Occidental produces about 15 percent of Libya's oil and exports most of it to Western Europe.]



10 [Tripoli's move against Occidental was followed quickly by ultimatums to other oil companies. The Oasis Group of companies, Libya's largest oil producer, and Amoseas were given the alternative of accepting a similar nationalization or being taken over completely. The same threat was made to Occidental. Three of the Oasis group—Continental, Marathon, and Amerada-Hess—have relatively little foreign oil production outside of Libya and will probably agree to the Libyan demands. Shell, the other Oasis partner, and Standard Oil (California) and Texaco, partners in Amoseas, have most of their production in the Persian Gulf countries and probably will resist Tripoli's demands in hopes of deterring other oil-producing countries from demanding similar terms. This could turn out to be a futile effort.]

panies acquiesce in Tripoli's demands. Other oil-producing countries, particularly those in the Persian Gulf, are almost certain to seek improved terms in their agreements with the oil companies operating there. The high price—\$4.90 per barrel—which Occidental agreed to pay Libya for government-owned oil will be highly publicized and put further pressure on world oil prices.

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9 [The Libyan nationalization of Occidental has far-reaching implications for the international oil industry, especially if, as is likely, other com-

Israel: Isolated but Unmoved

14 [Israeli spokesmen stood firm in the face of general world and sharp domestic criticism of Tel Aviv's forcing down and searching of a Lebanese civilian airliner under charter to Iraq. The spokesmen insisted that Israel's action was justified as self-defense against Arab terrorist "horrors" and vowed that Israel would continue the war against terrorism.]

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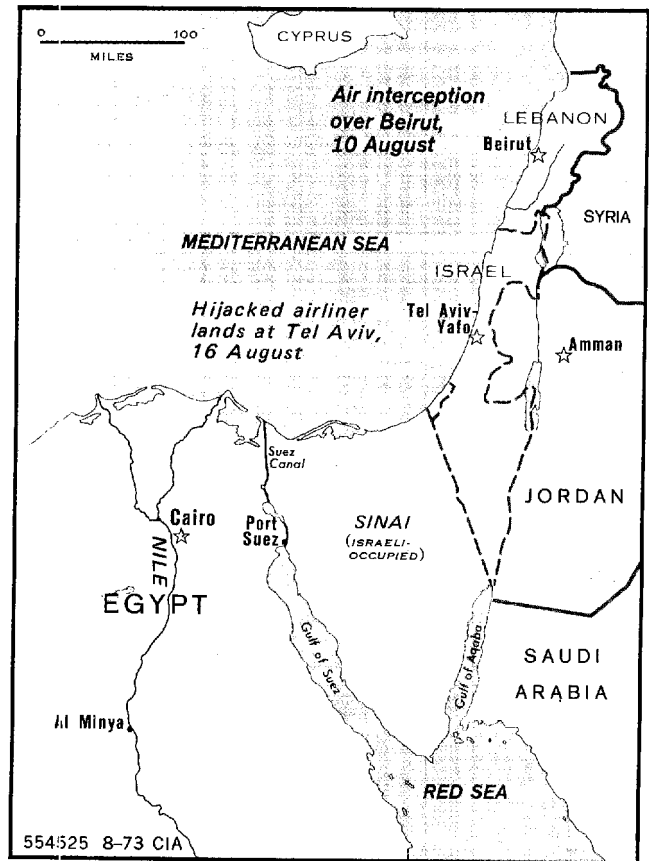
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14 [The Israelis did not at first reveal why their aircraft had intercepted and diverted the airliner, but as pressure built Defense Minister Dayan admitted that the operation had been designed to capture some fedayeen leaders. A particular target was George Habbash, leader of the Popular Front for the Liberation of Palestine, whose organization has staged a number of anti-Israeli terrorist acts. Dayan characterized Habbash as a "mass murderer," and his capture would have been viewed in Israel as a real coup.]

13 [Dayan dismissed the action "as yet another operation" in the Israeli war against terrorism and sought to put it in the perspective of the machine gun and grenade attack by Arab guerrillas in the Athens airport lounge on 5 August and the hijacking of a Japanese airliner last month. The Israelis, moreover, have not forgotten the assassination of their assistant defense attache in Washington on 1 July. Dayan claimed that 70 of the 110 terrorists arrested in various countries had been released after a short time. He said, "If the world wants the terrorism to stop, it must take part in the war against terrorism." Israel, Dayan said, could not adopt only a defense strategy against the terrorists; it had to "fight them whenever and wherever we find them." Prime Minister Mrs. Meir added her support to Dayan's state-



George Habbash

ments on 14 August by voicing similarly defiant remarks. Diplomatic condemnation of Israel was dramatized in the UN where the Security Council met in emergency session this week to censure Tel Aviv. Coming less than a month after the Middle East debate that ended with a US veto of a resolution that would have condemned Israel, the council imposed no sanctions, but did call upon the International Civil Aviation Organization to take appropriate measures against Israel. This group is expected to meet next Monday to decide whether it should deprive Israel of some of its membership rights.]

The seriousness of the "airline war" was pointed up Thursday when a Middle East Airlines passenger plane en route to Beirut was hijacked to Israel. [redacted]

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Argentina: Precarious Interregnum

24 [While the provisional government marks time in anticipation of Peron's return to power and a lineup for the elections next month begins to emerge, left-wing terrorists are preparing to step up their activities. Meanwhile, Peron's erratic behavior since his return in June is raising doubts that he will be able to restore stability and cope with Argentina's pressing problems.]

been strung along as a possible national unity candidate—his greatest asset is probably the vote-drawing power of his running mate, a popular young senator from the federal capital]

28 [Despite uncertainties about his intentions, Peron still commands the overwhelming support of his followers—and some former enemies as

28 [The zigzag course pursued by Peron during his earlier presidency is again apparent in his recent actions and may show how little his basic political reflexes have changed. If Peron's aim in removing Campora was to use his own mystique to bring some semblance of unity to the fractious Argentines, his political maneuverings provide little evidence that he is making any headway in that direction. By shunting aside efforts to achieve a national unity agreement with the opposition and naming his wife as his running mate, Peron seems to be behaving in a purely opportunistic manner and with no coherent plan in mind.]

25X1 28 [This week Peron dispelled rumors that he was going to back down on running for the presidency by finally accepting the nominations proffered to him and his wife by the Justicialist Party. It is not accepted by all that Isabel will stay on the ticket as vice president,]

25X1 [] One of the problems involved in her candidacy is the question of a successor should the ailing Peron die in office. This problem might be handled by making provisions for Isabel to step down after his passing.]

28 [Prospects for an alliance between Peron and Radical Party leader Ricardo Balbin all but vanished with Isabel's nomination. Balbin's recent statements indicate that he still holds out the possibility of cooperation with Peron, but that likelihood seems tenuous at best. Balbin has been named to head his party's slate, but—after having



Juan Perón

Ross

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well. Many see him as the only leader who can bring the country out of its extended political turmoil. That faith will erode unless Peron can speed up the agonizingly slow efforts of the government to get moving on major problems.7

24 Peronist-affiliated extremists may be planning to resume violence. By allying themselves with those already pursuing this path, these nominal members of Peron's own movement would point up in strong terms the extent of left-wing disillusionment with Peron and would make his task of restoring order more difficult.7

24 Although the targets of extremists will be Argentine security or military personnel, US interests and personnel could come under attack.7

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INDOCHINA

AID FOR HANOI

29 Moscow finally signed off on new economic aid for North Vietnam. North Vietnamese Premier Pham Van Dong returned to Moscow this week to take part in the signing of a two-year aid and trade agreement. Soviet Premier Aleksey Kosygin committed Moscow to help North Vietnam to develop its power and coal industries, its roads, and its virgin lands. There was no hint that agreement had been reached regarding military aid, although military men from both sides took part in the latest round of talks. Pham Van Dong's delegation left for home shortly after the signing ceremonies.7

30 Dong's trip was originally billed as a tour of the Soviet Union and all Eastern European countries to thank them for their wartime aid and to seek new assistance. For some unexplained reason, the North Vietnamese have not been to East Germany or Czechoslovakia. The visit to Bulgaria, expected to run from 1 to 6 August, was extended at the last moment to 10 August. The death of East German leader Walter Ulbricht on 1

August could have disrupted North Vietnamese plans for visiting that country, but there is no apparent explanation for their failure to go to Czechoslovakia.7

30 The problem could involve military assistance. Hanoi apparently is still having difficulties extracting new military aid out of Moscow, and it is possible that the same problem could be complicating aid negotiations with Pankow and Prague. Czechoslovakia is a major producer of small arms and is believed to have contributed substantially to the North Vietnamese arsenal. The East Europeans, like the Soviets, are attempting to improve their relations with the US and may be reluctant to make public military aid commitments to Hanoi at this time.7

30 North Vietnamese party boss Le Duan remains in the Soviet Union and he may attempt to resolve these problems before he returns to Hanoi.7

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LAOS: THE RIGHTISTS RESIST

36 It took nearly six months for Prime Minister Souvanna and his man Pheng Phongsavan to work out an acceptable agreement with the Communists on implementing the February peace accord. In typical Lao fashion, settling of the final details of this understanding has likewise become a drawn-out and complicated affair. Souvanna had hoped to sign the document on 15 August, but objections from Lao rightists forced him to go back to the Communists for some last-minute revisions.⁷

37 Souvanna almost certainly does not expect the Communists to make significant concessions, but he apparently does believe that he must at least make the motions if he is to maintain a degree of non-Communist unity within the future coalition government. He has made it clear to his critics, however, that he will not delay a settlement much longer.

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CHINA: CONTENTION AT THE CAUCUS

(38-42)
Plenary sessions of the party's Central Committee have often been raucous affairs. In 1959, Mao and his then defense minister engaged in a shouting match; Red Guards packed the hall in 1966 to force endorsement of the Cultural Revolution; and a top party leader lost his job at the last plenum three years ago. There are signs that a plenum is now in progress, and it may well turn out to be as free-wheeling as before.

Preparatory meetings were held in Peking earlier, and Mao may have attended an evening session on 11 August. Peking is full of rumors, but there has been no official announcement of a meeting of any kind. A party congress usually is publicly acknowledged on the day it convenes, but a Central Committee plenum typically is kept under wraps until it ends.

The meetings come at a time of rising political tensions. The radical wing of the party has been vocal in recent weeks, opposing the revival of several moderate policies that prevailed before the Cultural Revolution. An article in the latest issue of *Red Flag*, the party theoretical journal, seems to blame agricultural woes on the liberalizing trend in education, science, and to a lesser extent culture. Attacking those who want to "go backward," *Red Flag* argues that current policies in these areas have adversely affected the "economic base." The article lashes out at the rehabilitation of cadres ousted during the Cultural Revolution, noting that enemies of the people always try to regain their lost positions once a major political upheaval is over. Seemingly taking direct aim at Chou En-lai, the article complains of "unhealthy tendencies"



Chen Hsi-lien
Weighing in against exams

in state organs, a main area of Chou's responsibility.

The issue of college entrance examinations is being used by the radicals as a club to force concessions from Chou in more critical areas. *Red Flag* attacked such examinations, reinstituted this year, and a series of broadcasts in mid-July from Liaoning Province took the same position. At the end of July, Chou left Peking to meet with Liaoning party boss Chen Hsi-lien, a military man who sits on the Politburo. The question of entrance examinations was probably discussed, and Chou, who earlier favored their use, seems to have backed down.

Chen Hsi-lien has not opposed moderate policies in the past, but may have his own reasons for forming an alliance, however temporary, with the radicals. With Peking anxious to reduce the role of military men in civilian affairs, Chen may be worried about his political future. The military's role in politics, and its effect on the personal status of powerful figures like Chen, is one of the many questions facing the plenum and one of the reasons why sparks seem likely to fly.

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SOUTH KOREA: KIM'S KIDNAPING

43 Some of the mystery surrounding the abduction of former presidential candidate Kim Tae-chung lifted this week when he reappeared in Seoul, but many questions remain. 47 Kim had been taken from his hotel in Tokyo on 8 August, 47 beaten, and spirited to Korea by five men. 47 There is widespread suspicion and some circumstantial evidence that they operated under the direction of the South Korean Central Intelligence Agency, 47 and that the kidnaping was meant to end Kim's vocal opposition to the Pak regime. Kim may indeed have been silenced, but the costs in terms

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Kim Tae-chung

43 of Seoul's international prestige may have been
46 high?

43 [An outspoken and dynamic politician, Kim had been in voluntary exile since late last year when the Pak government clamped down on all opposition political activity. He had worked in Japan and the US to organize anti-Pak groups among overseas Koreans and was on the verge of activating a well-financed organization in Japan when he was kidnaped.]

43 [The Pak government viewed Kim's organizational activities with concern. Seoul feared that the large pro - North Korean organization in Japan and Pyongyang's office at the UN would be able to manipulate Kim and his opposition groups to Seoul's disadvantage.]

44 [Now that Kim is back in South Korea, he will be closely guarded and not allowed to leave the country. Seoul has already rejected a Japanese request that he be returned to Tokyo to participate in the investigation of his abduction. His overseas organizations will wither without his leadership.]

45 [The South Korean Government stoutly denies any complicity in the kidnaping. The action is, however, in keeping with Seoul's willingness to ignore domestic and international sensibilities in order to silence its critics.] [The government had already come under fire for the recent arrest of Christian clergymen, and Kim's abduction seems certain to damage Seoul's reputation even further.] [The Japanese in particular are disturbed.]

43 [The situation is made to order for the North Koreans. Pyongyang, claiming from the outset that Seoul masterminded the kidnaping, can be expected to hammer away at the South's irresponsibility. Pyongyang may also have reason to hope that a souring of Japanese relations with Seoul could lead to a lowering of Tokyo's barriers to broader economic and political contacts with the North.]

JAPAN: NEW DIRECTIONS

(50 + 51)
[Untrammelled industrial expansion is no longer the keynote of Japanese economic policy. Emphasis is shifting to long-term efforts to modernize Japan's transportation and communication networks, to provide better goods for Japan's

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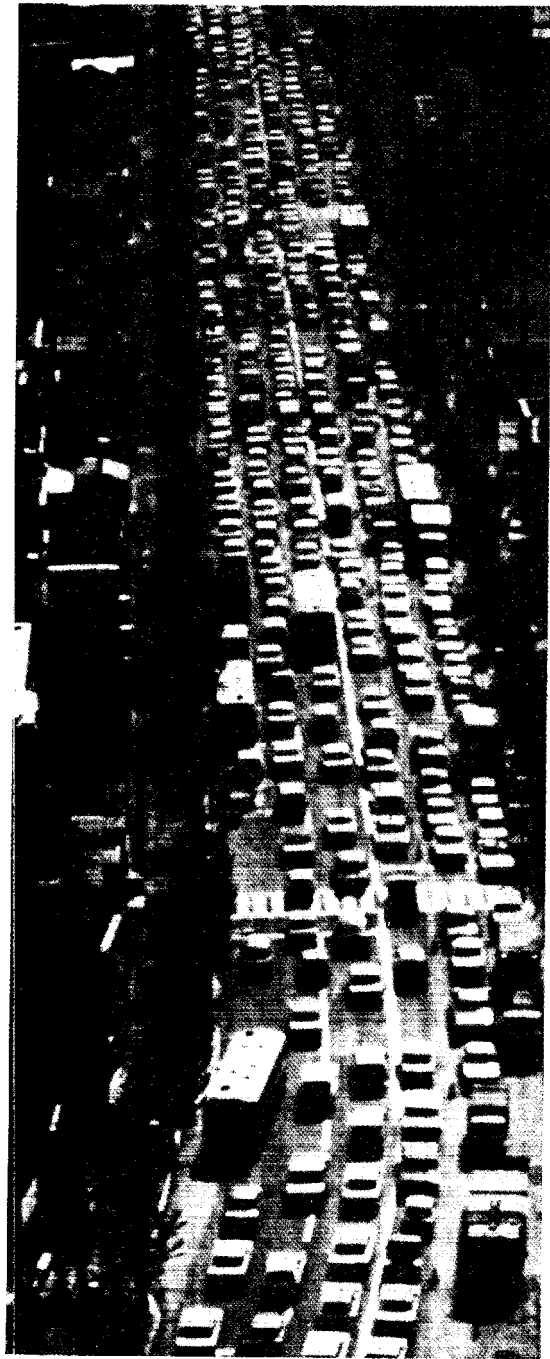
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burgeoning consumer society, and to create better living conditions. The powerful Ministry of International Trade and Industry, long a bastion of expansionism, has been reorganized to reflect the new emphasis.

The reorganization, the first in the ministry's 20-year history, is designed in part to break down the close identity of interests that grew up between private industries and individual ministry bureaus when Japan was rebuilding its war-shattered economy. The old industry-related bureaus promoted the interests of industry by facilitating rapid economic expansion and export growth. Now, however, foreign reaction to floods of Japanese goods and domestic pressures for a better life are causing Tokyo to think in different terms. New bureaus have been created at the ministry oriented toward consumer and retail interests, a new departure for the Japanese. Other new bureaus have been given across-the-board responsibility for questions of environmental impact and pollution control. The power to decide on such matters as factory locations has been taken from the old industry-oriented bureaus and placed in the new ones.

The ministry also has been given a new agency for energy and resources programs. For the first time, a single governmental body will be responsible for developing a coherent program for these critically important areas. The Minister of International Trade and Industry, Tasuhiro Nakasone, won a significant victory in acquiring this responsibility, which was a prize sought by a number of other ministers.

The ministry lost some powers; for example, it now shares economic planning functions with the Finance Ministry and the Cabinet Office, where Prime Minister Tanaka can exert more direct control. Overall, the ministry emerges with new capabilities which should improve the government's capacity to manage the environmental impact of industry and help keep a better check on the pattern of industrial development. The reorganization, which was in the works for over a year, was pushed by Tanaka and was supported by Nakasone.



Tokyo traffic

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USSR

MOVES AGAINST CHINA

53 [Recent public attacks against the Chinese—following the Crimea conference of Warsaw Pact leaders—give evidence that the Soviets are orchestrating a new ideological campaign against Peking. 52 The first movement was a major editorial in *Pravda* on 7 August, and it has been answered by a strong supporting chorus from Moscow's staunchest allies in Eastern Europe. Leonid Brezhnev added his own prestige to the effort on 15 August when he gave a gloomy assessment of Sino-Soviet relations and placed the blame squarely on the Chinese leadership. These statements have led to speculation that Moscow may have plans to convene another international communist conference to treat the China problem.]

52 [The *Pravda* article—attributed to "I. Aleksandrov," a pseudonym used to denote high-level endorsement—blamed the Chinese leadership for the growing difficulties between Peking and the socialist states. Aleksandrov charged that "literally everywhere" the Chinese are a "force hostile to the...socialist world." The major purpose of the article was to show that the Sino-Soviet dispute was not merely over "national differences," as the Chinese leadership contends, but a larger struggle between the "chauvinism" of the Chinese and the principles of international socialism. Aleksandrov condemned Peking's opposition to world socialism and to the programs "collectively worked out" at the international communist conferences in the 1950s and 1960s. Although the author begs the question of whether an international conference is necessary to discuss the China problem, Chinese and Yugoslav diplomats in the USSR believe that Moscow is aiming for such a gathering.]

58 [The press articles go beyond acrimony and suggest a serious attempt to discredit China's socialist credentials. Members of two Soviet academic institutes, when asked to explain the contradictions between the Aleksandrov article and Brezhnev's support for peaceful coexistence between socialist states, commented that they did

not "consider China to be socialist." When pressed, however, they explained that there was no agreed Soviet policy on the subject.]

54 [Several days before Aleksandrov's article, a Polish Politburo member urged the socialist countries to take a "decisive position in regard to the leadership and the harmful Maoist course of the Chinese Communist party." A popular Polish weekly carried an article critical of the Chinese and concluded that Maoist ideology is directed "against the interests of the socialist community." In recent years, the Polish party has often been in the forefront of the war of words with the Chinese and has occasionally aired views that the Soviets preferred not to state publicly.]

56 [In addition to the Polish replay of the Soviet themes, the Czechoslovak newspaper, *Rude Pravo*, took the unusual step of printing the full text of the Aleksandrov article, which the paper said had "exceptional significance." The Bulgarian Politburo met on 8 August and parroted the Soviet warning against "opportunism of left and right." The Bulgarians placed far greater emphasis on the solidarity of the socialist camp suggesting a particular need for unity among the Warsaw Pact states.]

53 [The Soviets have never really come to terms with the question of China's standing with the other communist parties or the possibility of another world-wide conference to discuss China's standing in the socialist community. This issue would create serious problems for Moscow, given the inevitable opposition of the Romanians and the Yugoslavs, various West European communists, and the North Vietnamese. Nevertheless, any conference attended by a majority of communist parties—even if some parties refused to adhere to all decisions of the conference—would be useful for Moscow. In the meantime, the Soviets and their allies can be expected to increase the tempo of their criticism of the Chinese, if only to counter anti-Soviet themes that may emerge from the expected meetings of the Chinese Communist Party.]

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SECRET**GOOD HARVEST IN PROSPECT**

(NO SOURCE)
A record Soviet grain crop of 155 to 160 million metric tons of usable grain is still possible if the weather remains good and harvest losses are about average. There is a chance, however, that the harvest will fall below 155 million tons. Worse than expected losses could occur in the western USSR, where harvesting is being slowed by lodged grain and wet weather. Despite a faster pace since the end of July, only 40.6 percent of the total grain area had been threshed by 13 August, compared with an average of 44.4 percent at this time in 1970-72. In addition, excess moisture and weediness could reduce the amount of milling quality wheat.

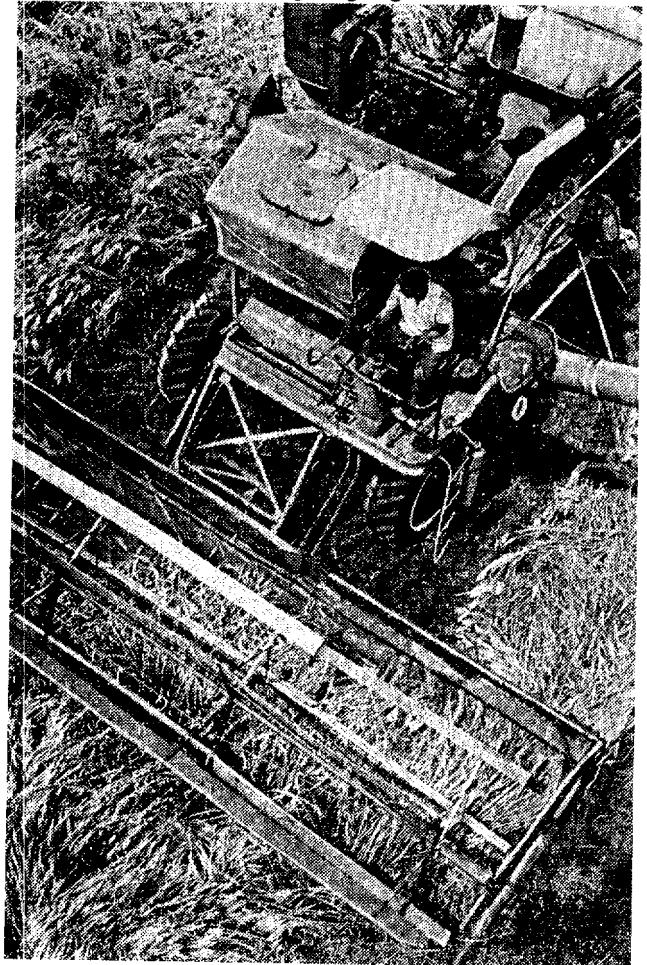
Even with a harvest of between 155 and 160 million tons, 11 to 16 million tons of grain probably will have to be imported to meet export requirements and domestic demand until the harvest next year. If the harvest reaches 160 million tons, the grain already purchased this year plus deliveries of grain bought last year will satisfy minimum Soviet requirements. Additional imports would be required if the harvest were less than 160 million tons or if the Soviets were to decide to increase grain reserves, which are now minimal.

Moscow has retreated from earlier statements that the Soviets would make no further grain purchases from the United States through 1975. Moscow now claims to have stopped buying US grain temporarily to ease the pressure on the US market. In this connection, Moscow has put off the delivery of more than one million tons of corn, due this fiscal year, until fiscal 1975.

The Soviets have indicated interest in additional purchases in Canada, Australia, and France. The Canadians agreed to supply no more than 2.5 million tons of grain during fiscal 1974 in addition to the 1.5 million tons purchased earlier. Other exporting countries may also be reluctant to commit much of their crop until the size of their exportable surplus is known.

USSR: Progress in Harvesting Grain Crops

Dates	1970-72 Average Percentage Threshed		1973 Percentage Threshed	
	Per Period	Cumulative	Per Period	Cumulative
Before 10 July	3.8	3.8	3.1	3.1
10-16 July	5.6	9.4	3.8	6.9
17-23 July	8.2	17.6	6.3	13.2
24-30 July	8.4	26.0	6.7	19.9
31 July - 6 August	9.8	35.8	10.4	30.3
7-13 August	8.7	44.4	—	—

Harvesting lodged grain**SECRET**

SECRET**MORE MARS PROBES**

(59 + 60)
 Four Soviet space probes are on the way to Mars—the largest number ever launched during one period. Mars 4, 5, 6, and 7 were launched from Tyuratam aboard SL-12 space boosters during a three-week period beginning 21 July. All spacecraft appear to be functioning normally and should arrive in the vicinity of Mars in February and March next year.

The Soviets may have been forced to reduce the weight of these probes when compared to past Mars missions because of the relative positions of Mars and the Earth. The TASS announcements suggest that two of the probes are intended to orbit Mars while the other two may carry instrument packages to be landed on the surface of the planet. Mars 6 and 7 are equipped with French instruments which will perform cosmic ray and solar radiation experiments.

tive goods or violate labor discipline by being drunk at work, drinking on the job, or breaking work rules. Under the new system, a worker could lose 20 percent of the bonus for one unexcused absence during the year, and 50 percent for two.

61 The new scheme could raise serious political problems if its punitive aspects are enforced on a large scale. Tampering with the wage and bonus system is a serious matter in Poland and was one of the things that led to the downfall of the Gomulka regime. Authorities, therefore, will probably proceed very gingerly, perhaps singling out only the most chronic and blatant offenders. Withholding bonuses from all Poles who drink on the job, for example, would affect too many workers to be politically prudent.

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POLAND: LESS WORK, LESS PAY

61 Warsaw recently announced changes in the system of worker bonuses, and if fully applied, they will result in lower incomes for marginal employees—a politically risky move given the militancy of Polish workers.

61 Heretofore, bonuses have been granted to all workers of a factory that achieved specified production results. These bonuses came to be taken for granted by the workers in such plants and consequently did not constitute a real incentive for the individual worker. The new system, which went into effect last month, shifts the bonus from the factory to the individual worker. Over a period of time, it will be possible for a good worker to earn as much as a month's extra salary. Conversely, bonuses will be withheld from those who produce defec-

**SECRET**

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SECRET**EUROPEAN COMMUNITIES****TRADE WITH JAPAN**

(68-70)

Manufacturers in EC nations are stepping up their demands for protection from rapidly rising imports from Japan. Between 1970 and 1972, Japan's exports to the community jumped 75 percent to \$3.3 billion and are continuing to increase this year. Japan's trade surplus with EC countries reached about \$1.6 billion in 1972 and may approach \$2 billion this year.

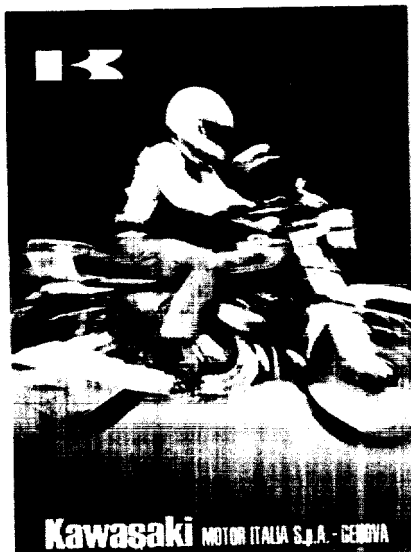
Japanese exporters have been pushing sales to the EC as a means of maintaining export growth and diversifying its markets. Currency realignments this year also have increased Western Europe's attractiveness relative to the US as a marketplace for Japanese goods. European protectionist sentiment has been increased by the concentration of Japanese sales in a few product lines in which EC producers compete. Electronic products, iron and steel, automobiles, ships, textiles, motorcycles, and photographic equipment together account for nearly half of Japan's exports to the community.

In some cases, EC firms and industries, with the cooperation of their governments, have suc-

ceeded in establishing market-sharing arrangements with their Japanese rivals. In other cases—for example, Italian imports of tape recorders—import quotas have been imposed. Japan has sought to forestall such actions by placing voluntary restraints on certain exports. Generally, voluntary restraints have not been sufficient to satisfy European manufacturers, and some EC nations are pressing Japan to adopt more restrictive export controls.

Japan and the community have tried to negotiate an over-all trade agreement, but Tokyo has refused to accede to EC demands for strong safeguard clauses. In the absence of such an agreement, EC member states continue to deal individually with problems caused by imports from Japan. EC Commissioner Soames will engage in further talks with Japanese officials next month, and in the fall the EC Council is scheduled to discuss the EC-Japan trade imbalance. The council's discussions will be based on a working party report that recommends the EC seek easier access to the Japanese market and, in the absence of a satisfactory agreement, consider unilateral measures to limit Japanese exports.

Japanese motorcycles in Italy, calculators in West Germany, cameras in France



Panorama

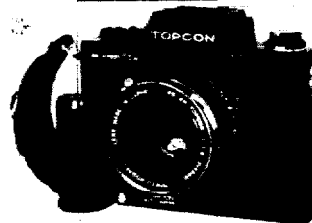


Das große Plus



Der Spiegel

TOPCON
L'étape décisive
vers une
motorisation totale

LA LOTO SUPER 35
LN 24 x 36

TOPCON

Paris Match

SECRET

SECRET**FRANCE LASHES PARTNERS**

25X1 [Sharp attacks leveled by a French official this week against the EC Commission, the UK, and, in particular, West Germany provide a foretaste of the controversies that will confront the European Community this fall.

Minister of Agriculture Chirac granted an interview to a French news magazine in which he blasted recent EC Commission proposals that would disadvantage certain French agricultural producers; more important, he attacked West Germany for allegedly "turning away from Europe." In fact, he criticized all of France's EC partners for declining to support Paris in its efforts to encourage European soybean production even after the US placed limitations on soybean exports.

Chirac's strictures on Germany reflect Pompidou's widely reported pessimism about German intentions. The French press, taking note of Chirac's interview, has adopted a similarly apocalyptic view. Although Chirac's remarks are clearly designed to serve the specific purpose of defending the advantages France has gained from the common agricultural policy, a point emphasized in British press editorials, they also are part

of Pompidou's current tactics aimed at discouraging West Germany from embarking on "foreign adventures" in the East.

Although official German reaction to Chirac's statements has been restrained, the press has responded strongly, giving vent to the considerable impatience felt in Germany toward Paris and its European policy. Privately, moreover, Bonn officials are highly irritated both with the substance and the harsh tone of the interview. The German Embassy in Paris has been instructed to make known Bonn's dismay and to ask for "clarification."

By way of explaining underlying French motives, a German foreign office official has noted France's resentment over Germany's growing political and economic power, opposition to Germany's role in promoting an intensified US-European dialogue, and displeasure with Germany's improved relationship with the USSR and Eastern Europe. Another official in Bonn has observed that whatever lies behind the bombast in Chirac's interview, such public expression produces an atmosphere of distrust that neither Germany, nor Western Europe, nor the US can regard with equanimity.

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EGYPT: STANDING STILL TOGETHER

7/ President Sadat is involved in another round of diplomacy designed to solidify support for Egypt's position on the Middle East conflict. The effort, embracing the Arab world and Europe, has been undertaken with an eye on the Algiers conference of nonaligned states, which begins in September. But he is also trying to demonstrate to the US and the USSR that Egypt can accommodate itself to the former's support for Israel and the latter's failure to give its full backing to Egypt. Sadat, of course, is also trying to demonstrate to Egyptians who are discontented with the stalemate that he is doing something to extricate them all from it. 1

7/ [At the nonaligned conference, Sadat hopes to turn the recent US veto of a UN Middle East resolution to Egyptian advantage by gaining even wider support for the Egyptian position embodied in the resolution. He has attempted to capitalize on the moral victory he feels he achieved at the UN by dispatching messages of thanks to the 13 states that voted in favor of the Security Council resolution; the messages portray the US negative vote as an indication of US-Israeli isolation. His next step will be to take his case to the nonaligned forum, which he assumes will lend a sympathetic ear.]

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71 [To this end, Egyptian Presidential Adviser Hafiz Ismail last week went to Yugoslavia to coordinate strategy for the conference.]

71 In the Arab world, Sadat's overtures are also directed toward the nonaligned conference, though they have broader aims as well. He wants to go into the conference with at least something like a unified Arab front, which he can claim to head. This is the immediate motivation for recent moves by Cairo to improve relations with Jordan and bring the Jordanians back into the Arab fold, at least nominally. Sadat's reported willingness to drop earlier preconditions for King Husayn's return attests to the urgency with which he views the issue. Husayn, anxious for the restoration of Kuwait's annual subsidy, is willing to play the game so long as he is not asked to accept the fedayeen or other Arab troops in his country.]

71 [Little progress, in real terms, is likely to result from Sadat's moves either at the nonaligned conference or among his Arab neighbors. Expressions of solidarity with the Arab cause are little more than expressions, and Arab unity is as illusory as ever. Sadat himself is aware of these truths, but he sees no other course at present. His international and inter-Arab moves are simply another effort to buy time and divert discon-
25X1 tented Egyptians.]

PAKISTAN: CONSTITUTIONAL CHANGE

73 + 74
On 14 August, Pakistan became a federal, parliamentary republic. Z. A. Bhutto, president under the previous constitution, will continue to lead the country as prime minister.

The new constitution attempts to steer a path between the unstable parliamentary system Pakistan had in the 1950s and the repressive presidential government that followed. The prime minister will be responsible to the National Assembly, but he will be difficult to remove. A no con-



Bhutto

fidence motion must name his successor; if a majority of any party favors the prime minister, votes cast against him by members of that party will not count.

To protect the interests of the three smaller provinces against both the central government and the dominant Punjab, the parliament will be bicameral. The Senate—in which each province has equal representation—will, however, have much less power than the National Assembly, which will be elected on the basis of population.

Provincial governments will be chosen by the provincial assemblies and the centrally appointed governors will have largely ceremonial functions. When the central government decides that an emergency exists, however, it can take over the administration of a province.

These changes will make little difference in the way Pakistan is governed. The Punjabis, who have a majority of the National Assembly seats, will continue to dominate. Prime Minister Bhutto will have almost the same powers he did as president, and his party will still have overwhelming majorities in the national parliament and two of the provinces. In the two frontier provinces, Bhutto will still face strong opposition and demands for greater provincial autonomy.]

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INDIA-US: SMOOTHER SAILING

75 [New Delhi's relations with Washington have entered a period of relative calm. The strains which developed in 1971 have eased, and Prime Minister Gandhi, along with other officials, has expressed a desire for improved relations. High-level accusations of anti-India conspiracies by the CIA have ceased, and criticism of US policies is less frequent. Suspicion of the capitalist West is deeply grounded in many Indian officials, and relations with the US will be periodically agitated when Mrs. Gandhi and her government turn on Washington for what they conceive of as some new US act of exploitation of the underdeveloped world. A continuing major concern of the Indians is the possibility of US arms shipments to Pakistan, either directly or through a third country like Iran.]

75 [Otherwise, economic issues are likely to dominate bilateral relations in the period ahead.

8 The US provided India with some \$9 billion—about half its aid receipts since independence—
77 but at the same time stimulated considerable resentment. India owes the US \$3.3 billion in hard currency and its annual debt repayments currently exceed new receipts.]

75 [To set the stage for a new economic relationship, the US has offered a plan for disposing of the large sums in Indian rupees held by the US.
77 The rupees were generated by the sale of \$4 billion of agricultural products during the 1960s under the easy terms of PL-480. India reacted favorably to the new US plan, and negotiations are continuing. Amicable resolution of this problem could improve the atmosphere, but major obstacles stand in the way of better economic cooperation.]

77 [The Indians claim they want to expand commercial relations with the US, but prospects are not bright so long as Indian policies discourage foreign trade and investment. The Indian Government is and will continue to be basically hostile toward private foreign investment, and its import system favors goods from the USSR and Eastern Europe over those from the US and the West. Moreover, India's exports to the US, pri-

marily things like jute and tea, offer little scope for expansion.]

76 [India has not solicited new aid from the US and has not asked for special concessions for the purchase of US grain. The Indians bought 3.2 million tons this year on the open market at top prices and will probably buy more. They shopped world-wide, but had to place the bulk of their order in the US. The monsoon so far has been good, raising expectations of a good fall harvest; even if these are borne out, serious shortages will develop before the new crop reaches the market in November.]

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RWANDA: HOPEFUL START

78 [The military junta that seized power in early July is living up to its promise to establish a government of reconciliation. Although Hutus continue to dominate, as they have since independence, the new government does include two civilian ministers from the Tutsi minority. The 11-man junta includes one Tutsi officer, reflecting the ratio between the two tribes.]
79 [There is at least one representative in the cabinet from each of Rwanda's ten administrative areas, thereby ending the monopoly of senior government positions held by Hutus from deposed president Kayibanda's home area in the south. Northern resentment over that monopoly was a major cause of the coup.]

79 [General Habyaliman, who is now both chief of state and defense minister, has put together a government that seems better equipped than its predecessor to grapple with Rwanda's economic and social ills. It faces the formidable challenge, however, of overcoming years of enmity between the country's two ethnic groups as well as political factionalism between northern and southern elements within the Hutu majority.]

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US \$ Per Troy Ounce

	Official Price	Market Price
Through Mar 1968 ¹	35	35
Apr 1968 - Mar 1969	35	35- 44
Apr 1969 ² - Dec 1969 ³	35	44- 35
Jan 1970 - Jul 1971	35	35- 42
Aug 1971 ⁴ - Dec 1971 ⁵	35	44
Jan 1972 - Aug 1972 ⁶	38	44- 70
Sep 1972 - Jan 1973	38	70- 65
Feb 1973 ⁷ - Jun 1973	42	65-127
Jun 1973 - 20 Jul 1973	42	127-114

1. Beginning of two-tier marketing system.
2. Expansion of South African gold sales to amounts exceeding production because of unfavorable turn in balance of trade.
3. Signing of IMF-South African agreement setting floor price of \$35 per ounce for South African sales.
4. US gold window closed.
5. Signing of "Smithsonian" agreement, including US and South African currency devaluations.
6. Reduction in May of South African gold sales to less than production because of increasingly favorable trade balance.
7. Announcement by US of 10% currency devaluation.

SOUTH AFRICA:
SELLER'S MARKET

(80)

Despite the recent fall in the price of gold on the international free market, gold prices have been at record levels long enough to be a bonanza for South Africa, which normally produces 60 percent of the world's newly mined gold. Without gold sales, South Africa would have had balance-of-payments deficits exceeding \$1 billion a year since 1968. The gap between South Africa's non-gold exports and imports is widening, but the high prices for gold will permit South Africa to meet its balance-of-payments needs. Indeed, it can do so by marketing a smaller volume than last year, 600 metric tons compared with 715 tons last year.

South Africa: Balance-of-Payments Financing
Requirements, Gold Sales, and Production

	Financing	Gold Sales	Gold Production
	Million US \$	Million US \$	Metric Tons
1968	334	422	370
1969	1,295	1,333	1,075
1970	1,595	1,643	1,398
1971	1,649	1,569	1,203
1972	1,074	1,396	715
1973 (first half) ¹	755	1,100	390
			425

1. Estimated on the basis of data for January-May 1973.

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South Africa's gold production reached a peak of about 1,000 tons in 1970 and has moved downward since then. The gradual decline in output is the result of higher prices, which, as elsewhere, induce mining companies to turn to low-grade ores and to reserve the richer ores. This extends the profitable life of individual mines. With ore-processing capacity fixed in the short run, the lower-grade ores yield less gold. With high prices, however, even a reduced volume is profitable. So far, the high price of gold has not led to opening new mines, which in South Africa would have to be sunk to very deep levels.

The boom in mining is not limited to gold. There is strong foreign demand for other South African minerals—platinum, diamonds, and copper—partly as a result of world-wide economic expansion. Bullish conditions in the major international commodity markets also have increased

demand as investors and speculators turn to these commodities, much as they turn to gold, to hedge against inflation and the uncertainties surrounding the valuation of key currencies.

Pretoria has launched new measures to stimulate real economic growth. These measures will lead to increased imports throughout 1973 and well into 1974. Preliminary statistics show that industrial and commercial enterprises already have begun to add to inventories in response to higher demand. The surge in imports will require Pretoria to finance a foreign exchange deficit without gold sales estimated at \$1.7 billion. Sales of gold in the first six months of 1973 have already amounted to about two thirds of the expected deficit, and Pretoria can now cut back on gold sales for the rest of the year if the price weakens.

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HAITI: OFF WITH THE OLD

81 [The removal of a number of unpopular and corrupt officials from the cabinet and armed forces last week may provide President Jean Claude Duvalier with time to improve the performance of his government and impart a sense of direction to his floundering "social revolution." While there are complaints that the purge did not go far enough, the changes were at least a long overdue demonstration of decisiveness by the government.]

82 [The long-rumored reshuffle began with the replacement of four civilian ministers on 9 August. Extensive political shifts and a shakeup of the armed forces followed. Most of the changes were made for political reasons, since those removed were for the most part associates of former strong man Luckner Cambronne. Former finance minister Edouard Francisque—not a Cambronne supporter—was probably dropped because he was a poor administrator noted for his heavy-

handed treatment of private foreign investors. A number of minor officials were also removed and more are expected to go in the near future.]

84 [President Duvalier has for some time wanted to personalize his cabinet and to eliminate inefficient and corrupt men, but had been unable to persuade his mother, with whom he in effect shares power, to go along. She appears to have been won over when she was disillusioned with Cambronne and came to share her son's suspicion that the fire that destroyed much of the government's arms and ammunition stores on 23 July resulted from sabotage.]

84 [The presence in Haiti since 30 June of the President's strong-willed elder sister, Marie Denise Dominique, appears to have provided impetus to the purge. Marie Denise had lobbied long and hard for the removal of Cambronne associates, some of whom were responsible for her de facto

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exile. Her influence with the President is considerable, and her unusually long stay—she left just before the first changes were announced—apparently was devoted to encouraging her brother to get on with his plans. Her visit occurred at a time when criticism of the regime's political and economic stagnation was growing, as was dissatisfaction within the military. The Duvaliers may have decided that changes were necessary if they were to remain in control of the situation.]

83 Army Chief of Staff Lieutenant General Claude Raymond, who was reassigned as ambassador to Spain, was the most senior military officer removed. He was inefficient, corrupt, and unpopular. His replacement, Lieutenant General Jean Baptiste Hilaire, has a reputation for competence and is respected by his colleagues. Another senior casualty was the capital's chief of police, Frank Romain, who was efficient but corrupt and heavily involved in smuggling. The most important elements in the armed forces—the Presidential Guard, the Dessalines Battalion, and the elite Leopard Company—were unaffected by the changes, probably because their leaders retain the confidence of the President.]

84 So far the changes have been well received by the military and other groups, but the government has yet to demonstrate that it can give any real political or social direction to the country.

and similar in structure and function. The only real difference was in subordination: one had been led and directed by the Cuban Communist Party's youth arm, the Young Communists League, whereas the other was under the Armed Forces Ministry. The merger, as Raul explained it, simplified logistics and eliminated duplication. It also doubled the agricultural work force controlled by the Armed Forces Ministry—i.e., Raul.

In addition, Raul revealed that the Council of Ministers had approved a "postgraduate social service law" that closed a loophole in the military draft system. Formerly, Cuban males who remained in school until they were beyond draft age could escape serving in the armed forces. From now on, graduates who have not satisfied their military service obligations must accept a three-year assignment—presumably within their field of competence—at any post the government chooses.

Raul characterized service in either the labor army or regular military units as a "moral duty" for members of the Young Communists League and instructed the league to carry out the political and ideological work required in both regular and labor units. He made it clear, however, that in the labor army, as in the regular units of the armed forces, the league surrendered supremacy to the military chain of command. In this way, the armed forces will be able to exert considerable influence over the group from which new party members are chosen, and any league member who fails to gain the blessing of his unit commander will have a poor chance of selection into the party's ranks.

CUBA: MORE OF THE SAME

85 + 86

[The speech delivered by Raul Castro on 3 August at ceremonies marking the formation of the Youth Labor Army indicated that Cuba is clearly in for more regimentation, more military influence in political matters, and more Raul.

The newly formed youth army is a paramilitary labor force made up from two groups of young, essentially unskilled workers who were used primarily in agriculture. The two were roughly equal in size—some 50,000 men each—

Any enhancement of the armed forces, of course, improves the position of its chief, Raul himself. The fact that Raul is appearing more and more as the regime spokesman on key domestic matters is a sign that he is assuming political responsibilities that Fidel formerly reserved for himself. Fidel has found that, in contrast to his own administrative incompetence, Raul has a talent for organization that must be utilized if the country is ever to get on its feet. Confident of Raul's loyalty, Fidel will continue to lean heavily on his younger brother for advice and leadership.

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CHILE: NOT EVEN THE MILITARY

- 91 [The addition of the four armed services chiefs to the cabinet on 9 August has further confused the situation and solved none of Chile's critical problems. The three-week-old truckers' strike has set off sporadic work stoppages elsewhere, and the blackout of four provinces during
- 89 Allende's speech on 13 August was only the most spectacular of a new rash of terrorist incidents.
- 90 Several of these appeared linked to a bitter new
- 91 anti-US campaign; Chilean officials say the campaign will not affect bilateral talks that opened this week in Washington]

- 91 [Air force chief Ruiz, now minister of public works and transportation, has the toughest of the new military posts. He reportedly joined the cabinet reluctantly as an alternative to being retired. Allende evidently suspects the general of sharing the disaffection of many air force officers toward his government. Although radical Socialist Jaime Faivovich—*bete noire* of the private transporta-
- 81 +90 +91



Allende and Minister of Works Ruiz

tion industry and much of the opposition—is no longer in charge of dealing with the trucking strike, he is still Ruiz' most powerful deputy. Ruiz must also defer to a Marxist-dominated ministerial and labor committee, further reducing his ability to reach a reasonable settlement of the truckers' strike.]

- 91 [Navy chief Montero faces similar problems in trying to bring moderation into economic policies as finance minister. Communist and Socialist officials rightly consider these policies at the base of the government's power. The posts assigned army chief Prats and national police chief Sepulveda have not strengthened their powers; Prats, for example, got little besides a new title but remains the key military figure.]

- 91 [The many military officers who are alienated by the Allende administration can hardly consider that the new arrangement meets the conditions the military laid down last month for rejoining the cabinet. These officers do not yet, however, seem either clear or united on what course to take and have settled on supporting their commanders' decision, at least for the present.]

- 91 [The Christian Democratic leadership, too, seems uncertain what to do next. Party leaders feel that Allende has regained the political initiative and is exploiting the deep differences within the party over how best to deal with him.]

- 90 [Meanwhile, the radical leftists, led by Socialist Secretary General Altamirano, appear ready to rely more on their multiplying "popular power" organizations as an alternative to a discredited administration. Military officers, even General Prats, rate these armed groups as a major threat and will not be reassured by Altamirano's call for a "new state" based on the workers' organizations.]

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SECRET**INTERNATIONAL MONEY MARKETS**

The dollar rose sharply during the past week; in West Germany it reached a value of 2.48 marks on 15 August, the best showing since 29 June and a gain of over 3 percent since 8 August. The rally, propelled by rising dollar and Eurodollar interest rates, has added to confidence in the dollar.

The rise has encouraged major central banks to sell some of the dollars they acquired in previous interventions.

The price of gold fell to \$94 an ounce early this week before rebounding to \$103 yesterday when bargain-seekers moved into the market. Swiss banks offered larger than usual quantities of gold on 9 and 10 August in London and Zurich, suggesting that some small holders were taking their profits. Firm evidence of large-scale unloading by speculators is lacking, and gold sales by South Africa and the USSR apparently have remained relatively constant. Most of the gold buying in the last month has been for commercial use; in contrast, between late May and mid-July speculative purchases overshadowed commercial buying.

Changes in the Dollar Value of Foreign Currencies Since 19 March
(in percent)

	16 August	9 August	27 July	11 July	6 July
Mark	+13.9	+19.0	+23.1	+17.6	+25.1
French franc	+ 4.8	+ 9.5	+12.5	+11.6	+19.9
Sterling	0.0	+ 0.8	+ 1.9	+ 3.6	+ 3.9
Yen	- 0.1	- 0.1	- 0.2	+ 0.2	+ 1.1

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